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Cameroon:
Tough Times Ahead

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A Research Paper

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February 1983

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Cameroon: Tough Times Ahead [redacted]

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A Research Paper

This paper has been prepared by [redacted] Office of African and Latin American Analysis. Comments and queries are welcome and may be addressed to the Chief, West and East Africa Division, ALA, [redacted]

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This paper has been coordinated with the Directorate of Operations. [redacted]

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Cameroon: Tough Times Ahead [redacted] 25X1

Key Judgments

Information available as of 29 December 1982 was used in this report.

Cameroon has been a model of economic progress and political stability since it gained independence in 1960 because of the careful use of the country's resources and the effective leadership of former President Ahmadou Ahidjo, who resigned in November 1982. Despite this strong past performance, however, we believe the country will face significant economic challenges over the next few years as a result of less favorable international economic conditions and an overly ambitious domestic development program. Cameroon's newly installed President, Paul Biya, will be required to make and impose tough economic decisions to keep the country on a strong development track. [redacted] 25X1

Cameroon's historically strong development effort received a major boost in late 1977 when the country became an oil producer. Production is currently around 100,000 barrels per day and brings in almost $1 billion in foreign exchange annually. We anticipate these oil earnings could increase to $1.6 billion by mid-decade. [redacted] 25X1

Optimistic Cameroonian Government officials are counting on this oil money to help finance an $8 billion investment program through 1986 that is critical to maintaining the country's economic health. The program includes agricultural projects, port construction, and exploitation of mineral resources, such as petroleum and natural gas. Government planners project real economic growth to average 7 percent through the mid-1980s. [redacted] 25X1

We believe the Cameroonian economy cannot support a development plan of this magnitude, and that real economic growth is not likely to average more than 5 percent—approximating the historic average—over the life of the plan. In our opinion, manpower and transport deficiencies will limit the country's ability to absorb the rapid infusions of capital and equipment required by the plan. The country's cumbersome bureaucracy will also retard Cameroon's capacity to implement the plan. [redacted] 25X1

Even if Cameroon could overcome these constraints, we expect financial deficits will jeopardize completion of the plan. The program, written in 1979-80, anticipated the continuation of a strong world oil market and positive global economic growth. Since this assumption proved incorrect, we believe that government revenues are substantially overestimated. [redacted]

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[redacted]
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We also believe Yaounde will fail to locate overseas financing for all of the $4-5 billion that—considering the softer oil market—we project it will need to complete the plan. [redacted] the Mexican and Brazilian financial crises are making Western bankers much more conservative in lending to Third World governments. In addition, France—Cameroon's primary donor and foreign investor—has financial problems of its own and would be hard pressed to come up with the volume of funds we forecast as needed. [redacted] 25X1 25X1 25X1

We expect that Cameroonian officials will approach the United States for help, either on their own initiative or at the request of the French. Comments by senior Cameroonian officials indicate that Yaounde, capitalizing on what it believes are recently improved ties with Washington, will look to the United States for economic aid, particularly to fund agricultural projects. Cameroon also is likely to expect private US investment to increase significantly as a result of the groundwork laid by the US trade and investment mission in 1982. [redacted] 25X1

As traditionally inward-looking Cameroon seeks new sources of international financing over the next few years, it is possible that it could turn also to the Soviets or Libyans, but we believe this is not likely. Cameroonian leaders in and out of government are strongly anti-Soviet and anti-Qadhafi. Also, with the country needing large-scale economic rather than military assistance, there seems virtually no likelihood that Moscow or Tripoli will succeed should they woo the new government. [redacted] 25X1

We believe the government within the next two years will be forced to cut back its development program because of financing difficulties. Cutting the plan, however, will carry not only economic but political risks. Biya will have to be especially careful of the reaction of English-speaking—and oil-rich—western Cameroon, where residents have long resented what they believe to be second-class treatment by a French-dominated bureaucracy, a problem rooted in Cameroon's dual colonial legacy. Spending cuts will affect housing and other public services, and the government's inability to satisfy popular expectations could contribute to urban unrest. [redacted] 25X1

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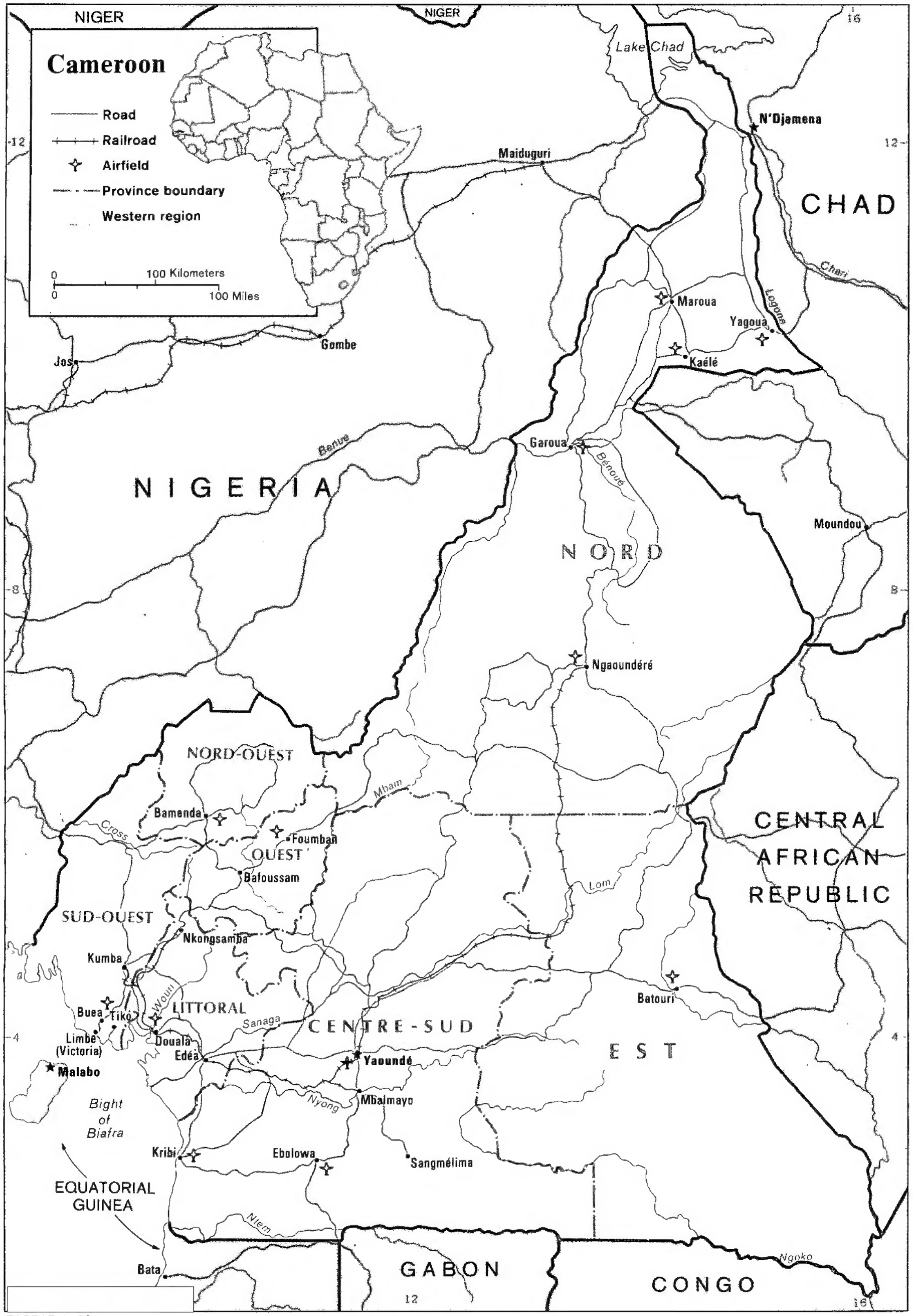
Figure 1



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Cameroon:
Tough Times Ahead [redacted]

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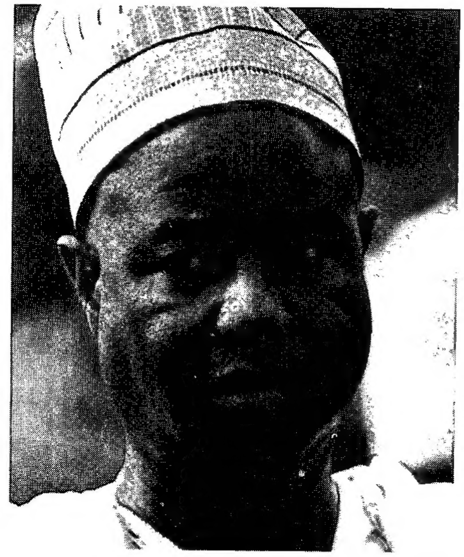
The Economy—A Synopsis

Steady Progress

Under the Ahidjo regime, Cameroon experienced moderate, broad-based economic expansion between independence in 1960 and 1975, according to US Embassy sources and data provided by the International Monetary Fund (IMF). Led by gains in local food and export crops, real growth averaged 4.6 percent annually through the mid-1970s. Ahidjo's favorable agricultural pricing policies helped double the production of cocoa and coffee—Cameroon's principal exports during the 1960s—to account for over half of export earnings. Cameroon became the fifth-largest producer of cocoa and ranked high among coffee exporters during this period. Moreover, Cameroonian farmers diversified their exports to include cotton, rubber, bananas, palm kernels, peanuts, tobacco, and tea. Cameroon even retained its status as a net food exporter, a rarity in black Africa. [redacted]



Former President, Ahmadou Ahidjo [redacted] Sygma © 25X1

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The most dramatic progress, however, was made in manufacturing, which, according to US Embassy sources, averaged an impressive 11-percent annual expansion during the period. Led by agricultural processing, the industrial contribution to GDP had risen from 10 percent in 1960 to 16 percent by 1975. We believe this performance was spurred by preferential treatment given to both domestic and foreign investors under Cameroon's liberal investment code, which allowed, among other benefits, duty-free imports of raw materials and machinery and exemption from taxes on products and profits for three to 10 years. Numerous industries also were developed to produce a wide variety of consumer goods, including shoes, textiles, soap, and paper containers. [redacted]

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Newly inaugurated President, Paul Biya [redacted]

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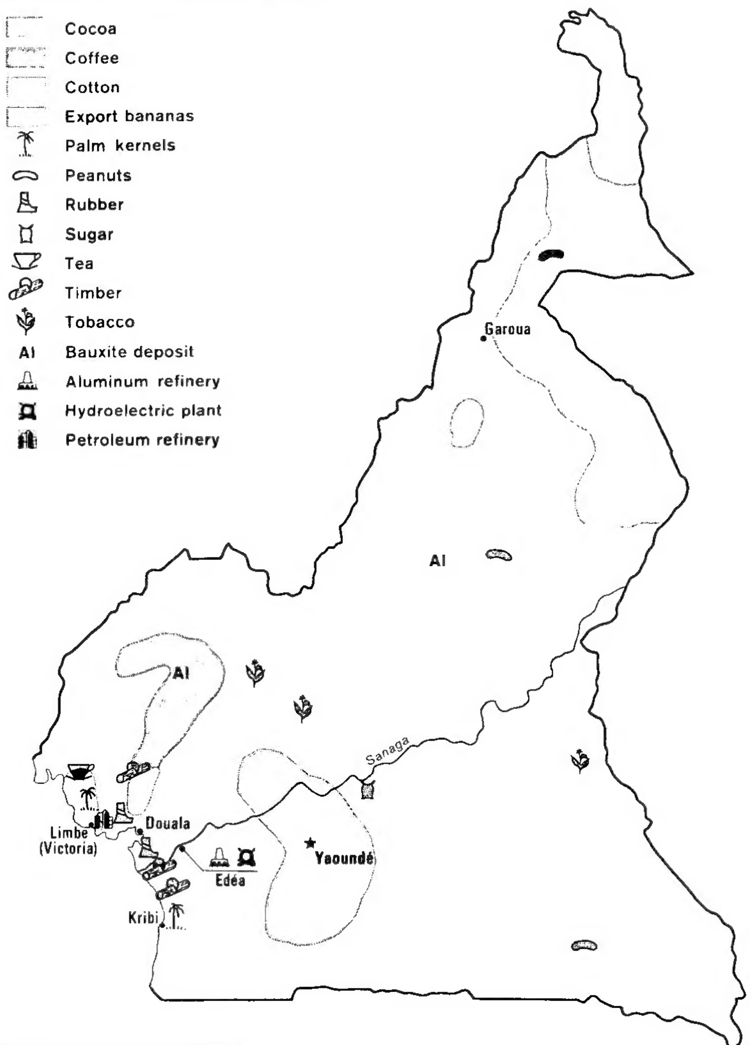
Yaounde, during the first 15 years of independence, relied heavily on its former colonial ties to France to develop the modern sector. France was Cameroon's major trading partner and aid donor, providing both

Figure 2
Cameroon: Economic Activity



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generous financial and technical assistance for construction projects, marketing facilities, and improved agricultural production and education. French managers dominated banking, foreign trade, industry, and plantation agriculture. Membership in the French-backed Central African Customs and Economic Union (UDEAC) also facilitated trade between Cameroon and other member African states because of the shared convertible currency.

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Weathering World Market Price Fluctuations

Like many LDCs, Cameroon benefited from the tropical products boom in the mid-1970s, which helped the country pull out of the world oil shock of 1973-75. Our analysis indicates that increased cocoa and coffee revenues and Western donor assistance were the primary forces behind the growth in real

Table 1
Cameroon: Selected Financial Indicators

	1977	1978	1979	1980	1981 [a]	1982 [b]
	Million US $					
Trade balance	40.5	31.2	−12.1	69.6	145.0	−300.0
Exports (f.o.b.)	828.1	1,078.5	1,302.6	1,620.0	1,880.0	1,500.0
Of which:						
Cocoa	330.2	326.2	331.2	277.9	215.0	210.0
Coffee	400.4	320.1	356.1	299.4	235.0	220.0
Oil		25.0	265.0	720.0	1,100.0	850.0
Imports (f.o.b.)	787.6	1,047.3	1,314.7	1,550.4	1,735.0	1,800.0
Services and transfers	−149.9	−218.2	−268.5	−287.1	−325.0	−350.0
Current account balance	**−109.4**	**−187.0**	**−280.6**	**−217.5**	**−180.0**	**−650.0**
Foreign exchange reserves (yearend)	42.4	52.3	125.7	173.5	70.9	NA
External public debt	861.0	1,182.8	1,663.7	2,000.0	2,400.0	2,800.0
	Percent					
Real GDP growth	4.0	5.0	6.1	6.2	6.5	6.0-7.0
Inflation rate	14.0	12.5	10.0	12.0	15.0	16.0
Debt service ratio	6.0	8.0	8.0	13.0	15.0	20.0

[a] Estimated.
[b] Projected.

[redacted] 25X1

GDP, which climbed from 1.5 percent in 1975 to 4.0 percent yearly during 1976-78, approximating the average of the previous 15 years. Even with the more rapid growth, according to the IMF, inflation remained manageable largely because Yaounde's restrictive credit policies and public-sector wage restraints damped consumer demand without crimping investment. In fact, Fund reports indicate surging public and private outlays boosted average annual domestic investment to 20 percent of GDP during 1976-78, 5 percentage points above the share at the start of the decade. Although our analysis indicates investment-induced borrowing caused the external debt—largely to France and the United States—to top $1 billion by 1978, the debt service ratio remained low at only 8 percent (see table 1). [redacted]

The Impact of Oil

Cameroon began pumping oil in late 1977 at an offshore field operated by a French-US consortium and by the end of 1978 was a net oil exporter. The US Embassy reports that while many other LDC economies began to sputter in the late 1970s in the face of a global commodities slump, Cameroon easily weathered the decline as it began to benefit from oil revenues. [redacted] 25X1

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Previous Economic Plans

First Five-Year Plan: 1961/62-1965/66
Cameroon's first plan was prepared by two private French consulting firms and covered only French-speaking Cameroon. When reunification occurred in October 1961, the program was subsequently extended to the whole country. This plan emphasized agricultural production, roads and railways, and social projects. Total planned investment amounted to $148 million (current dollars).

Second Five-Year Plan: 1966/67-1970/71
Although the second plan was written primarily by French consultants, it was the first to use various planning structures at the local, department, provincial, and national levels. It was also the first plan to set up a program to achieve Ahidjo's goal of doubling per capita income by 1980. The plan was known as the Farmer's Plan. Education, transportation, and industrialization efforts were also emphasized. Total spending amounted to $462 million.

Third Five-Year Plan: 1971/72-1975/76
The third plan was the first written by Cameroonians. Its preparation also involved more local participation than either of the two preceding plans. The third plan was labeled the "Plan of Production and Productivity" because of its emphasis on industrial development and commerce. Total spending amounted to $784 million. 25X1

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Fourth Five-Year Plan: 1976/77-1980/81
In addition to those local elements that participated in the preparation of the previous two plans, the drafting of the fourth plan included village development committees, sectoral study groups, and the provincial and national planning commissions. The fourth plan also brought modern methods of growth analysis and statistics into the planning process. In particular, the fourth plan focused on projects to eliminate bottlenecks, especially the still acute transportation deficiencies, that hinder a more rapid development of the economy. Investment costs during the fourth plan amounted to $2 billion. 25X1

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We believe Cameroon has been more successful than West Africa's two other major oil producers—Nigeria and Gabon—in managing its oil windfall. US Embassy reporting indicates the government has employed oil money and other financial resources to build up other sectors of the economy, specifically agriculture and industry. As a result, by the end of 1981 economic growth had topped 6 percent for the third year in a row. Oil production increased by more than 25 percent to 88,000 barrels per day (b/d), while agricultural output increased—although at a rate somewhat lower than earlier years—as a result of the government's favorable pricing policies and good weather conditions. Industrial performance was also strong, led by food processing activities.

In addition, Cameroon moved ahead in reducing its chronic current account deficit. More than $1 billion in 1981 oil revenues again offset depressed cocoa and coffee receipts. Yaounde's fiscal policies also held nominal import growth that year to little more than 10 percent. As a result, we estimate that Yaounde had by then contained its current account deficit to under $200 million (the lowest since 1977), an amount easily financed by foreign donors and bankers against the collateral of Yaounde's oil potential. Although the external debt climbed to $2.4 billion by the end of 1981, the 15-percent debt service ratio was still fairly low for an LDC. Typical of many LDCs in the throes of an oil boom, however, Cameroon began to experience increased demand-generated inflationary pressures as public expectations rose sharply. 25X1

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We believe that economic growth during 1982 probably equaled 1981's impressive rate but at some cost. The slack world oil market and increased domestic consumption reduced oil export earnings to only about $850 million. This downturn, along with still depressed sales of cocoa and coffee, cut total export earnings to only about $1.5 billion, down nearly $400 million from 1981 and the lowest since 1979. With import and service charges on the rise as Yaounde accelerated its 1981-86 development program, we believe the current account deficit hit some $650 million, which available data indicate is the largest since independence. [redacted]

[redacted] we estimate that Cameroon borrowed about $400 million from various international sources. The remaining $250 million came from an estimated $900 million in overseas oil investments that the government had been accumulating as a financial cushion since the startup of its oil production. [redacted]

Looking Ahead

The Financial Picture

Cameroon, unlike most of its West African neighbors, has an opportunity to regain and maintain a strong financial position over the next several years. We believe, however, that this will require the Cameroonian Government to make extensive and politically risky adjustments in the current development program (see appendix A). These would involve canceling or delaying indefinitely many prestige projects that are the basis for regional industrialization schemes. The government would have to carry out a careful balancing act to ensure that various interest groups, particularly those in English-speaking West Cameroon, do not feel that they are suffering disproportionately from budget reductions. Such changes could probably be carried out fairly easily if Ahidjo were still at the helm. President Biya does not have Ahidjo's prestige, however, and in our view will be less able to resist pressure from his supporters to maintain those parts of the plan of benefit to them. [redacted]

Should Cameroon manage to implement the fifth development plan as it now stands, we estimate that the country will face a cumulative current account deficit of $4-5 billion over the period 1982-86 (see table 2) and will have an overall debt by the end of 1986 in excess of $6 billion.[1] In addition, we believe Yaounde will be forced to draw down its remaining $650 million financial buffer (oil earnings held abroad)—perhaps as early as next year—just to make ends meet. Cameroon could, as a result, be forced to turn to the IMF for balance-of-payments assistance or perhaps to the London or Paris Clubs for debt rescheduling by the end of the decade. [redacted] 25X1 25X1

Official Cameroonian estimates differ substantially from our projections. Planning officials project a $2 billion cumulative surplus by the end of 1986. There are several reasons for the discrepancy, including what we believe are overly optimistic production and price projections for the country's agricultural exports. The principal factor in such a large variance, however, is Yaounde's projected rate of oil production, a figure twice as high as that forecast by officials of US oil companies operating in Cameroon. [redacted] 25X1 25X1 25X1 25X1 25X1 Moreover, Yaounde apparently believes, according to US Government officials, that oil production will not drop off until some time in the 1990s, [redacted] expect a decline beginning in 1988 unless substantial new finds are made (see appendix B). [redacted] 25X1 25X1 25X1

In carrying out its proposed investments, the Cameroonian Government is counting on at least $5 billion in loans, which would account for 60 percent of total projected spending. According to the plan, Cameroon expects to garner $3.2 billion in project-related financing from international banks and private Cameroonian interests. Because Cameroon's domestic banking sector is still underdeveloped and the government has shown no signs of imposing forced savings through additional taxation, most of this amount must come

[1] The methodological basis of these and other financial forecasts is explained in appendix C. [redacted] 25X1 25X1

[redacted]

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from foreign banks. Even though Cameroon currently has a solid credit rating, we believe the government will be unable to borrow anywhere near this amount. [redacted]

Yaounde also expects to borrow $1.8 billion from foreign government sources; $500 million from the Franc Zone and another $1.3 billion in aid credits from Western donors. Again, we are not optimistic that Cameroon will be able to borrow these amounts. The Franc Zone itself is in severe financial straits because of chronic foreign exchange shortages of the Zone's member countries, while Western donors, especially France, are being more selective in their aid disbursements to help restore their own financial position. [redacted]

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In addition to financial problems, implementation of the plan will also be affected by manpower and transport deficiencies (see appendix A). With less than 5 percent of the population possessing any technical skills, the country has a severe shortage of qualified

labor and must depend on expatriates, mainly French, to fill most of the technical and managerial positions. The transport network is grossly inadequate, with most roads impassable during much of the year.

The Political Scene

Cameroon's prospects now clearly depend on newly installed President Biya's ability to consolidate his power and handle the economy. Cameroonian officials and international development experts agree that the country's economic future requires major investments in agriculture to maintain Cameroon's rare ability among African states to feed itself. This, however, would be possible only at the expense of more popular projects in industry—such as the Kribi liquefied natural gas (LNG) project[2]—and social programs involving education, health, and housing.

We are concerned how Biya will implement any needed program cuts to minimize popular disaffection. Particularly worrisome, in our opinion, will be the reaction of residents in English-speaking western Cameroon, who have long resented what they believe is second-class treatment by a French-dominated bureaucracy in Yaounde. Biya is from French-speaking southern Cameroon, and we assume that he is well aware of the potential for local unrest if he does not appear sympathetic to the concerns of his western constituents. His task will be complicated by the fact that all of the country's current oil production is off the western coast, and we believe that regional politicians are carefully monitoring how oil money is being used to improve local living standards.

Biya's track record since he assumed office in November is encouraging. US Embassy sources indicate that his succession has been accepted calmly by Cameroonians. In addition, Biya has used his administrative talents to make some politically adroit moves and to consolidate his position. In our view, his appointments of cabinet ministers from the country's principal tribes and his choice of a Muslim northerner as prime minister—his constitutional successor—reflect his awareness of the political need to balance his status as a non-Muslim, southern minority tribesman. 25X1

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We view Cameroon's military and internal security forces as generally apolitical and able at least for now to keep any antigovernment movements from taking root. According to US defense attache reporting, these forces are disciplined, well trained, and have a reputation for preventing dissension. Should domestic unrest develop, Biya, like his predecessor, will probably rely on the national police and gendarmerie—which receive better pay and allowances than the Army—to maintain internal order. Biya almost certainly will also adopt Ahidjo's use of the threat of force and the promise of a share of the political spoils—such as cabinet posts and development projects—to keep Cameroon's many disparate tribes working together. 25X1 25X1

Still, we cannot rule out domestic unrest based—at least in part—on economic grievances. We believe, in particular, that the military could become increasingly disenchanted with the government if spending cuts prompt a sharp decline in economic activity and the lower ranks are forced to support financially a growing number of family members. The military will probably also be watching to ensure that it is not required to bear an excessive share of the cost of any economic slowdown. 25X1

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US Interests

American influence in Cameroon, according to US Embassy reporting, has grown considerably in recent years. President Ahidjo visited Washington in 1982, following a visit to Cameroon of Secretaries Block and Baldrige earlier in the year. Cameroon has purchased US military hardware and civilian aircraft, and an increasing number of US firms and financial institutions are setting up operations. 25X1

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[2] The Kribi project has already been scaled down by about one-third and probably will not be developed until 1988 at the earliest. The change in plans is the result of recent estimates by the main developers of the project, the French firms, Compagnie Francaise de Petrole and Elf Aquitaine, showing that Cameroon's natural gas reserves are not sufficient to justify construction of the original facility.

Although many US companies have found advantages in doing business in Cameroon, they also cite several drawbacks:

- The need to accommodate to the French system—language, customs, business practices—which, over the years, has become firmly entrenched in Cameroon.

- The increasing role of corruption.

- The ponderous redtape that limits the ability of a company to realize a profit in under 18 months.

- The need to justify expatriate positions to Cameroonian authorities and the requirement that Cameroonian nationals must fill certain other positions within a specified time limit.

- Finally, what businessmen see as a total lack of communication between responsible Cameroonian officials and US company representatives, which results in protracted contract negotiation and renegotiation.

We agree with the US Embassy's assessment that the recent change in leadership in Yaounde provides the United States with an opportunity to expand its role, as Biya looks to the country's traditional benefactors for support. This opportunity could be short lived, however, if Washington fails to meet growing Cameroonian expectations for financial and technical assistance. We believe Cameroonian officials assume—because of Ahidjo's successful visit to Washington in 1982 and the trade and investment mission earlier in 1982—that Cameroon has a new, special relationship with the United States. Yaounde, in our view, expects substantial aid, especially in agriculture. The country probably also expects an even larger amount of private US investment in support of priorities outlined under the five-year plan. 25X1

If, as we expect, US and other Western donors do not provide aid and investment on the scale envisaged by Cameroonian officials, we believe that Cameroon has little choice but to reduce substantially its current development program. Yaounde theoretically could turn to Moscow or Tripoli for assistance, but we believe Cameroon's pro-Western, anti-Soviet, and anti-Libyan biases will prevent it from seeking help in those quarters. US Embassy reporting indicates that the present Cameroonian elite has not forgotten that the USSR and other Communist states provided material support for an unsuccessful tribal insurgency by Cameroonian dissidents in the early 1960s. Even if Biya were to approach the Soviet Union or Libya, these countries' own economic difficulties almost certainly would prevent them from providing more than token assistance. 25X1

Moreover, we do not believe that, in the event of a coup, Cameroon's new leaders would seek the military assistance that the Soviets and Libyans sometimes offer in an effort to expand their influence with fledgling governments. In our judgment, a new military regime, at least initially, would continue to look to France—the Army's traditional source of arms and training—for help. US Embassy and reporting indicates that the Cameroonian military has been thoroughly screened for years to root out any personnel with suspected leftist views. 25X1 25X1 25X1

Appendix A

Cameroon's FY 1982-86 Development Plan

Government Goals

The current development plan—the most sophisticated to date in preparation and democratic in terms of participation—is targeted at consolidating the gains of previous plans (see box), meeting more of the economic and social demands of the Cameroonian people, and extending the diversification of the economy (see table 3). To reach these goals, the government seeks to exploit more fully Cameroon's abundant natural resources—particularly oil and natural gas. In addition to developing its petroleum industry, Yaounde wants to move ahead on several other major programs in order to:

- Accelerate regional economic development.
- Maintain self-sufficiency in food.
- Expand the production of traditional export crops.
- Increase utilization of domestic raw materials in industrial production.

The Plan by Productive Sector

Primary Sector

The major goals for agriculture in the new plan are to meet the country's food needs and to expand production of agricultural exports. The government believes, and we agree, that a critical element in meeting these objectives is to avert large-scale or excessively rapid rural/urban migration, which Cameroonians claim is responsible for the disastrous agricultural performance in neighboring Nigeria. As a result, the plan's agricultural investment strategy is aimed at making rural life more attractive to Cameroonians. Key targets are to keep producer prices high and improve the availability of credit, fertilizers, and other agricultural extension services.

Secondary Sector

In the manufacturing sector, Cameroonian Government officials are focusing on agricultural processing and light manufacturing industries. The plan calls for a significant expansion in the processing of local raw materials and intermediate goods for both domestic consumption and export. Continued exploitation of petroleum reserves and hydroelectric power sources along with development of natural gas and bauxite also rank high on the government's industrial development priorities list. The government anticipates an increasing role for both foreign and domestic investors and includes in its development strategy provisions for revamping its investment code and tax structure.

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Tertiary Sector

Along with increased industrial production, Yaounde is looking to a major expansion in commerce, transport, and tourism. To enhance the role of its budding tourist industry as a source of foreign exchange, Yaounde plans to develop several new tourist sites and construct 3,000 additional hotel rooms. The government hopes to hold several international trade fairs and construct new warehouses, storage facilities, and commercial markets. Other investments involve acquiring trucks, railcars, aircraft, and other kinds of transport machinery and equipment. 25X1

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For communications, investment is aimed at both improving existing facilities and expanding links both domestically and internationally. In terms of transport, investment projects include:

- Construction of 2,000 kilometers (km) of roads and 1,190 meters of bridges.
- Reinforcement of 1,200 km of roads.
- Realignment of the Transcameroonian railway.
- Expansion of Douala port to include fruit and minerals terminals.
- Construction of a deepwater port near Kribi.
- Expansion of Douala airport to accommodate large transport planes.
- Construction of new airports at Garoua and Bafoussam.

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Table 3
The Fifth Five-Year Development Plan, FY 1982-86

	Investment *(million 1981 US $)*	Percent of Total [a]
Total	**8,004.6**	**100.0**
Primary sector	1,896.6	23.7
Agriculture	1,512.5	18.9
Livestock and fisheries	288.1	3.6
Forestry	96.0	1.2
Secondary sector	1,312.5	16.4
Industry	640.2	8.0
Mines and power (including oil development)	672.3	8.4
Tertiary sector	614.6	7.7
Commerce	55.5	0.7
Transport	383.0	4.8
Tourism	176.0	2.2
Attendant sectors	2,916.6	36.4
Communication infrastructure	1,692.3	21.1
Ports and waterways	96.0	1.2
Roads and bridges	978.0	12.2
Railways	220.3	2.8
Aviation and meteorology	152.0	1.9
Post offices and telecommunications	246.0	3.1
Town planning, equipment, research	1,224.3	15.3
Town planning and housing	880.3	11.0
Territorial development	48.0	0.6
Administrative buildings	192.0	2.4
Research	64.0	0.8
Studies and surveys	40.0	0.5
Social sector	1,264.3	15.8
Education/training	704.2	8.8
Youth and sports	112.0	1.4
Information/culture	128.0	1.6
Health/social affairs	320.1	4.0

[a] Because of rounding, components may not add to the totals shown.

[redacted] 25X1

In addition, the plan envisages improving the country's internal and international telecommunications network, upgrading the mail service, and constructing new post office buildings. [redacted] 25X1

The plan also includes new initiatives in town planning, town expansion, and development research. Urban development projects include a major expansion in the availability of potable water and electricity, improved drainage and sanitation facilities for Douala and Yaounde, a 14,000-unit housing program, and the creation of industrial zones. Development research will highlight improving food crop production, animal husbandry, and nutrition. [redacted] 25X1

Social Benefits

Education

Government planners hope to build the 17,000 classrooms and train the 20,000 teachers they anticipate will be needed to handle the projected doubling in school enrollment by 1986. Increased attention will also be paid to technical and vocational education to fill the country's needs for skilled manpower. Other proposals include the establishment of a national education fund and a public relations campaign to encourage Cameroonians to become teachers. [redacted] 25X1

Health

In recognition of the country's inadequate system of health care, Yaounde has proposed a major expansion in health services. Some of the more ambitious programs include the construction of 41 hospitals and 36 mother and child care facilities, and the training of nearly 4,000 medical and paramedical personnel. Preventive medicine will receive new emphasis, as will more active participation by village communities in good health care practices. [redacted] 25X1

Youth and Sports

The primary goal of this aspect of the plan is to enhance the ability of Cameroonian youth to adjust to modern values while retaining some ties to their

cultural heritage. Government officials believe this approach is the best way to minimize the possibility of a sharp increase in juvenile delinquency that they see elsewhere in black Africa. Investments include constructing a national institute for youth and sports (with five regional centers and three sports stadiums), purchasing equipment, and improving existing sports facilities. [redacted]

Financing the New Plan

The Fifth Five-Year Plan calls for investment totaling some $8 billion. Financing is to be split 60/40 between public and private sources respectively (see table 4). The largest component of public-sector financing is budgetary savings, that is, the amount of public revenues left after current operating costs are covered. According to the financial plan, Cameroon expects these savings to total $1.6 billion over the life of the plan. Other local public resources—central bank holdings and contributions from parastatals—are to contribute another $1.4 billion. The remainder of public financing will come from borrowings against the country's Franc Zone account, $500 million; and external borrowing, $1.3 billion. Private financing is to supply the remaining $3.2 billion. Government planners anticipate funds will come from international financial institutions and private businessmen. [redacted]

As noted in the text of this paper, we believe Yaounde will be hard pressed to come up with anything close to the funds specified in the plan. This is largely because Yaounde's chief benefactors –Paris especially—have financial problems of their own and are slowing new aid commitments. In addition, international lending institutions are nervous about LDC lending because of the Mexican and Brazilian financial crises. Moreover, what we see as the overestimation of oil revenues for the period will limit the government's own domestic resources available for development purposes. [redacted]

Other Implementation Problems

We believe that aside from financial considerations, deficiencies in manpower and transport will impede completion of the plan. Excessive redtape and bureaucratic inertia will also slow the process. [redacted]

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Table 4
The Financial Plan, FY 1982-86

	Billion 1981 US $	Percent [a]
Total	**8,004.6**	**100.0**
Public financing	4,801.6	60.0
Local public financing	3,479.4	43.5
Budgetary savings [b]	1,586.6	19.8
Other local public resources [c]	1,370.9	17.1
Local public loans [d]	521.9	6.5
External public financing	1,322.2	16.5
Loans already obtained	372.3	4.7
New loans to be contracted	775.9	9.7
Subsidies [e]	174.0	2.2
Private financing	3,203.0	40.0

[a] Because of rounding, compoments may not add to the totals shown.
[b] According to the plan, these are government revenues remaining after current operating expenses are covered.
[c] Cameroonian officials suggest this money represents contributions from parastatals and central bank resources.
[d] Cameroon can borrow up to 15 percent above their reserves on deposit in the Central Bank of Equatorial Africa, the local Franc Zone bank.
[e] We believe these are grants from the French Government.

[redacted] 25X1

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Inadequacies in the country's transportation system are especially worrisome. Currently, according to Cameroon's Director of Transport, the country's transport network consists of:
- 65,000 km of roads.
- 1,165 km of railways.
- Two principal seaports, Kribi and Douala, and two secondary ports, Victoria and Tiko.
- One seasonal river port at Garoua.
- The international airport at Douala and 12 smaller domestic airports scattered throughout the country.

[redacted] 25X1

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Although the transport network is fairly extensive (see map), there are serious problems that affect the flow of traffic. Except for a few roads in the major cities, the country's road system, by far the dominant mode of transport, is in disrepair. In addition, most roads are made only of gravel and earth and are frequently impassable during the rainy season. According to the World Bank, the state-owned railway consistently operates at a loss because of shortages of rolling stock and locomotives and managerial and operational deficiencies. Douala port, which handles 90 percent of the country's trade, operates at only 50 percent of capacity because of poor administration and bottlenecks in such areas as customs. Air transportation is not reliable because of frequent delays resulting from management and maintenance problems.

Skilled manpower shortages will also have an adverse effect on the country's development plans. According to the 1976 census—the last available—the Cameroonian work force accounts for 40 percent of the total population, of which the World Bank estimates that 83 percent are engaged in agriculture and lack other skills. Of the remainder, employed by industry and government, Embassy reporting indicates most are also unskilled. Even those who have received several years of education have pursued a predominantly liberal arts curriculum with few science and engineering courses. As a result, the country is dependent on expatriate labor—mostly French—for filling most of the technical and managerial positions in the economy.

Agricultural development could suffer the most from manpower and transport deficiencies. According to AID economists attached to the Ministry of Agriculture, the country's ability to feed itself is declining because of outdated technology, rural migration, and difficulties in moving products to markets posed by poor roads and lack of trucks. These economists believe that Cameroon will become a net food importer by 1990 largely because it will take at best a minimum of 10 to 12 years to rebuild agriculture even if the government moves now to address the problem.

US Embassy sources, who believe the Cameroonian Government is aware of the farm problem, cite Yaounde's designation of agriculture as the country's top development priority. In addition, planners have drawn up a series of policy initiatives that they hope will persuade highly productive farmers either to stay in or return to the countryside. These include annual raises in producer prices for both food and cash crops, increased training in advanced farming techniques, and expanded availability of agricultural credit. 25X1

Nevertheless, we anticipate serious problems in implementing these projects. The absence of skilled administrative personnel, for example, will impede the ability of the government to process applications for farm credits and to offer new extension services on a wide scale. In addition, few Cameroonians are qualified to be extension agents. Moreover, any increase in production would place serious strains on the country's already weak transport system. This is especially a problem for perishable crops such as bananas and cocoa. One experienced AID economist believes Cameroon will be lucky to meet half of its goals for agriculture because of these factors.

Other facets of the country's development program will also feel the impact of manpower and transportation deficiencies, in our view. Industrial projects can be expected, at a minimum, to fall behind schedule due to delays in machinery and equipment deliveries at the port and the ability of most roads to handle heavy loads for only five to seven months out of the year. Social projects—particularly health care and education—will lag because of insufficient personnel, while lack of timely deliveries of equipment and raw materials will push back the timetable for completing the plan's ambitious housing program.

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Appendix B

Making the Most of Oil

Oil is a prominent feature in any Cameroonian development scenario. We estimate it accounts for 50 to 60 percent of foreign exchange earnings. In addition, and apart from official foreign exchange holdings, the government has managed to build a financial buffer—which we estimate to be currently about $650 million—of oil money savings held outside the country in foreign financial institutions. [redacted] 25X1

Cameroon currently produces about 100,000 b/d of oil. By 1987, according to oil industry estimates, production should peak at 157,000 b/d. Assuming that real oil prices firm somewhat beginning in 1984 (see appendix C), government receipts will total some $5-6 billion from its share of production and taxes and royalties over the course of the current five-year plan. [redacted] 25X1

The present energy chief is Samuel Libock, director of Cameroon's national oil company, Societe Nationale des Hydrocarbures (SNH). Although industry decisions ostensibly are made by the SNH Board of Directors, Libock clearly is the government's primary spokesman, according to Embassy sources. During the past several years, he has moved to tighten Cameroon's grip on the oil industry, to the dismay of US oil companies operating in Cameroon:

- In December 1978 Libock announced a new law that required the government's share of production to be no less than 40 percent of the oil production from each company operating in Cameroon.

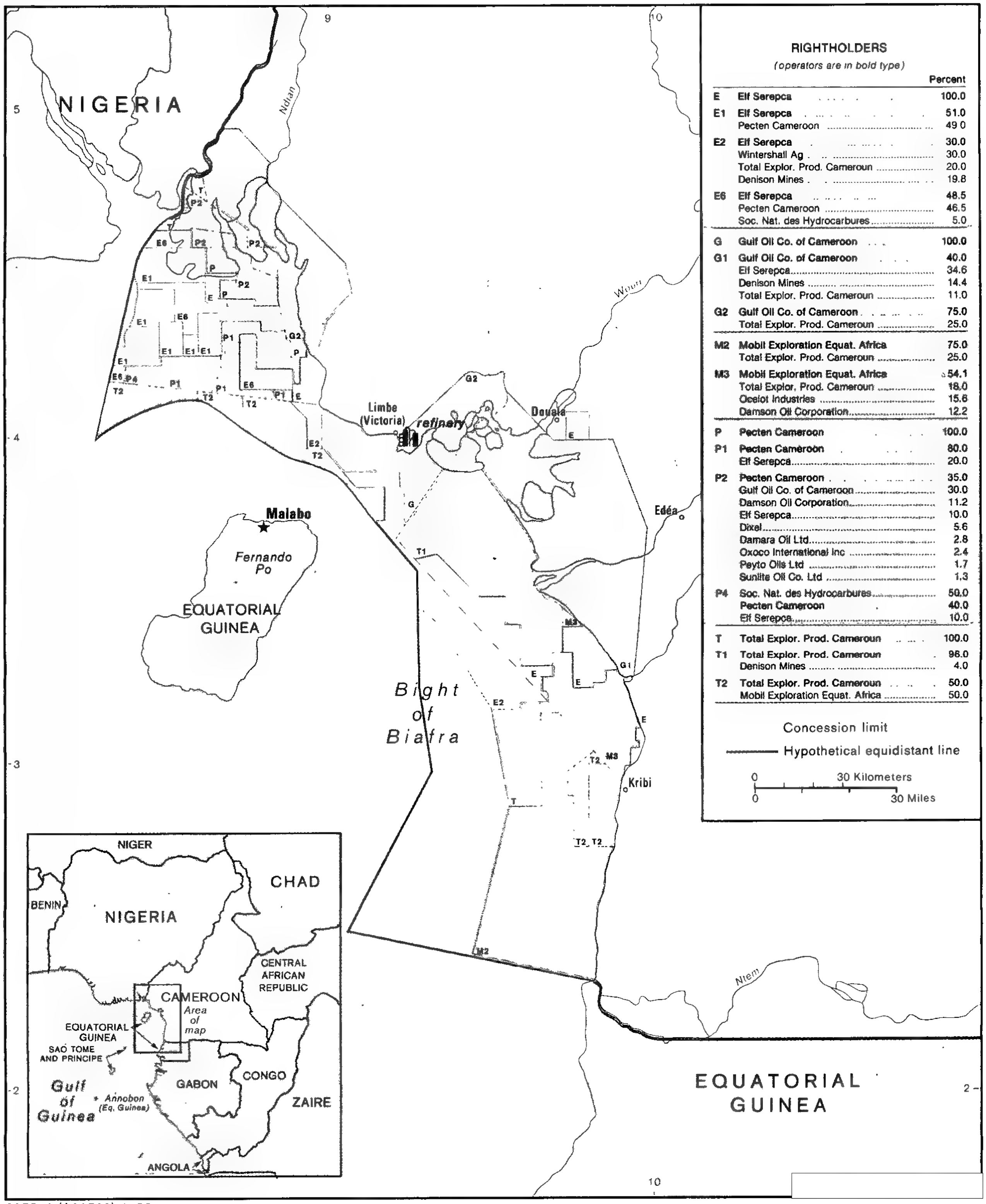
- The following year, Libock asked the French oil company Total to draft an additional agreement regulating Yaounde's share of oil revenues. The primary change involved an increase in the government's share of total revenue from what we estimate was about 75 percent to 87 percent, with the additional amount to come out of company profits.

National oil company president, Samuel Libock [redacted] 25X1

After some modifications, the Cameroonian Government decided these provisions would apply to all other companies as well. Total and ELF, another French firm, went along with the proposal, but the various US oil companies—Gulf, Mobil, and Shell-Pecten—resisted, claiming that they already had valid agreements.

- SNH then turned to ELF—the only firm currently producing oil in Cameroon—to prepare another agreement that would control timetables for debt amortization and repatriation of profits by all oil companies. Copies became available to oil companies in the spring of 1981. Only ELF, Total, and the US firm Shell-Pecten, which shares its concessions with ELF, have signed the new operating convention.

Figure 3
Cameroon: Oil Concession Areas



RIGHTHOLDERS
(operators are in bold type)

		Percent
E	**Elf Serepca**	100.0
E1	**Elf Serepca**	51.0
	Pecten Cameroon	49 0
E2	**Elf Serepca**	30.0
	Wintershall Ag	30.0
	Total Explor. Prod. Cameroun	20.0
	Denison Mines	19.8
E6	**Elf Serepca**	48.5
	Pecten Cameroon	46.5
	Soc. Nat. des Hydrocarbures	5.0
G	**Gulf Oil Co. of Cameroon**	100.0
G1	**Gulf Oil Co. of Cameroon**	40.0
	Elf Serepca	34.6
	Denison Mines	14.4
	Total Explor. Prod. Cameroun	11.0
G2	**Gulf Oil Co. of Cameroon**	75.0
	Total Explor. Prod. Cameroun	25.0
M2	**Mobil Exploration Equat. Africa**	75.0
	Total Explor. Prod. Cameroun	25.0
M3	**Mobil Exploration Equat. Africa**	54.1
	Total Explor. Prod. Cameroun	18.0
	Ocelot Industries	15.6
	Damson Oil Corporation	12.2
P	**Pecten Cameroon**	100.0
P1	**Pecten Cameroon**	80.0
	Elf Serepca	20.0
P2	**Pecten Cameroon**	35.0
	Gulf Oil Co. of Cameroon	30.0
	Damson Oil Corporation	11.2
	Elf Serepca	10.0
	Dixel	5.6
	Damara Oil Ltd	2.8
	Oxoco International Inc	2.4
	Peyto Oils Ltd	1.7
	Sunlite Oil Co. Ltd	1.3
P4	Soc. Nat. des Hydrocarbures	50.0
	Pecten Cameroon	40.0
	Elf Serepca	10.0
T	**Total Explor. Prod. Cameroun**	100.0
T1	**Total Explor. Prod. Cameroun**	96.0
	Denison Mines	4.0
T2	**Total Explor. Prod. Cameroun**	50.0
	Mobil Exploration Equat. Africa	50.0

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- At about the same time that the operating convention was proposed, the government announced that it wanted 20 percent of each foreign company's stock—in addition to its share of production receipts—which would entitle Yaounde to further corporate profits. Gulf and Mobil refused to sign the new operating convention in protest of the additional 20-percent equity share requirement levied by Libock. Libock in turn has demanded that Gulf relinquish half of its most promising concession if the company wants to continue to do business in Cameroon. This latest move has provoked a bitter dispute between Libock and Gulf, which could become an important factor in determining future US-Cameroonian relations. [redacted] 25X1

We believe that Libock did not act on his own in imposing these additional restrictions. Since former President Ahidjo frequently shuffled senior government officials to remind them that he was in control, it is our opinion that he would have removed Libock if the latter were not in fact following presidential orders in such important matters. In addition, we believe that Ahidjo monitored very closely overall oil policy decisions and would have moved quickly to stop Libock from doing something not in Cameroon's interests. For the time being, Biya—probably preoccupied with consolidating his own position—seems content to leave Libock in charge of oil policy. [redacted]

In our view, Libock's decisions clearly benefit Cameroon in terms of increasing Yaounde's share of oil revenues. We also believe that his actions may reflect government concern over the short lifespan of current oil reserves. [redacted] 25X1 Yaounde expects production will start to decline some time in the 1990s. We do not know, however, the assumptions the government is using in making this projection. [redacted] 25X1

We believe Libock's behavior could also reflect Yaounde's bowing to French pressure. Libock could be deliberately trying to force US oil companies out of Cameroon, leaving the field open to French firms. US Embassy sources report that French oil companies relinquished to American oil concerns what are now relatively large oil deposits in Ivory Coast and do not intend to suffer the same fate in Cameroon. In addition, information available to us indicates that Libock employs Total—in which the French Government has 40-percent ownership—as a consultant on oil matters. Furthermore, as noted, both the new association agreement and operating convention were drafted by French companies, and it is our opinion that their provisions will stretch out the time needed by those firms yet to begin production—almost all of these are US—to recover their investment costs. ELF, on the other hand, has been lifting crude since 1978 and, we believe, has offset a sizable portion of its capital outlays with revenues generated by earlier, more generous financial arrangements. [redacted] 25X1

US Embassy officers worry that Libock will make a major blunder in investing Cameroon's oil money. Indeed, Libock himself recently voiced similar concerns to Embassy officers and has engaged the services of a reputable US investment firm to assist him. [redacted] 25X1 We expect that Yaounde's investment policy for the forseeable future will remain in short-term assets because of financial demands associated with the current development program. [redacted] 25X1

[redacted] 25X1

Appendix C 25X1

Methodological Notes on Economic Forecasts

[redacted]

Official Cameroonian data posed serious problems. Almost all series suffer from the lack of internal consistency and timeliness and from frequent unexplained changes. The five-volume FY 1982-86 development plan spells out few assumptions for estimates of either government revenues or expenditures. Moreover, Yaounde's persistence in keeping information on oil earnings tightly held precludes the use of official sources to project future Cameroonian oil production and government revenues. [redacted]

[redacted] For domestic economic indicators, we have relied principally on the International Monetary Fund, whose annual consultations with the Cameroonian Government and periodic publications produce the most current and consistent series of data. [redacted]

International Trade and Financial Developments

In preparing our current account estimates for 1982-86, we first addressed Cameroon's export earnings potential. We focused our attention initially on petroleum, currently the country's primary foreign exchange earner. Three elements—production, domestic consumption, and international oil market trends—were examined:

[redacted]

[redacted] These projections reflect current estimates of proved reserves and recovery rates. We do not expect production to be affected by international swings in oil demand over the next several years because Cameroon's output is too small a share of the market. 25X1

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- Estimates of domestic oil consumption reflect the historical relationship between the country's growth rate and resulting oil needs—a 2-percent growth in oil consumption for every 1-percent growth in GDP. Our consumption forecasts assume a 5-percent annual growth rate in GDP during the plan. We expect problems in implementing the plan to keep economic growth below the 7-percent rate used by Cameroonian planners. Moreover, a 5-percent annual increase is in line with the country's post-independence average. 25X1

- With regard to international prices for Cameroonian oil, we assume that Yaounde will continue its policy of closely tying its price to that of Nigerian crude. As a result, we have drawn on some projections of future market trends for Nigerian and other African crude oil to make our forecasts for Cameroonian oil prices. 25X1 25X1

- We assume that current oil market conditions will prevail through 1983. We base this assumption on a number of unclassified projections of only a slight recovery in major industrialized countries, resulting in average OECD growth of about 2 percent this year. Accordingly, we are projecting that world oil prices will remain steady in the current \$32.50 to \$33 per barrel range, with no change in existing quality and transportation premiums. This should allow Cameroon to hold its official sales prices in 1983 at this year's level of \$33 per barrel. 25X1

- After 1983 we look for a stronger expansion in economic growth in the major industrialized countries, which will allow oil prices to begin improving

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in real terms. Allowing for international inflation, we estimate that Cameroonian crude could be selling for as much as $36 per barrel in 1985 and $39 per barrel by 1986.

On the basis of these production and price assumptions, we calculate oil export earnings totaled $850 million in 1982, rising to $1.6 billion in 1986. [redacted] 25X1

In addition to looking at petroleum exports, we examined factors affecting future sales of coffee and cocoa, Cameroon's other significant foreign exchange earners:

- Cameroonian planners anticipate marked increases in production of these crops during the next several years, but US Embassy and IMF reports indicate that such a performance requires immediate efforts to replace old, unproductive cocoa and coffee trees, and to introduce improved farming methods. At best, any improvement in output will require five to seven years—or beyond the scope of the current plan—because of the length of time needed for new trees to begin producing crops.

- Coffee and cocoa earnings will also be affected by what we believe will be a continued world surplus of both commodities. We project that market conditions may push prices even below current depressed levels. Consumption has stagnated because of weak economic growth in Western economies, while production remains high. However, a sudden change in supply, such as happened when the freeze in Brazil caused prices during the mid-1970s to skyrocket, would probably result in a significant improvement in prices.

On balance, we conclude that these factors will keep earnings for exports of tropical products close to the current depressed levels through 1986 even assuming moderate increases in production. As a result, overall export earnings will range from $1.5 billion in 1982 to $2.3 billion in 1986. [redacted] 25X1

Import and Service Costs

Our estimates for the average annual increase in import volume is driven by the comparable Cameroonian plan estimate. We believe this estimate—9.3 percent annually—is conservative considering the experiences of other African countries (particularly Nigeria) in implementing ambitious development plans and Cameroon's own previous development plan track. Still, lacking the basis of an independent estimate that would adequately capture the mix of projects and services in the plan, we have accepted the Cameroonian figure as reasonable [redacted] 25X1

To this import volume gain, we added 3 percent annually to reflect what we expect will be the average weighted import inflation rate for the period. This projection is based on inflation rates of Cameroon's major overseas suppliers, suitably adjusted for expected changes—as best we can judge them—in the yearly value of the dollar relative to the currencies of other industrialized countries. [redacted] 25X1

These assumptions result in Cameroon's merchandise import bill rising from $1.8 billion in 1982 to nearly $2.9 billion in 1986. Over the same period, we project that imports of services will jump from $350 million to $565 million. When placed alongside our forecasts for export earnings, the result is a cumulative current account deficit for Cameroon of nearly $5 billion during FY 1982-86. [redacted] 25X1

External Public Debt

We estimate that Cameroon had $2.8 billion in outstanding external debt by the end of last year. [redacted] 25X1

Based on our estimates of import requirements needed

to carry out the plan, we anticipate that cumulative financial needs could push Cameroon's debt to at least $6 billion by the end of 1986. This assumes full implementation of the current development program, a complete drawdown of the country's $650 million in oil assets that remain deposited in overseas government accounts, the absence of any significant net foreign investment or grant aid, and no addition to international reserves. [redacted] 25X1